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# Access for Infants and Mothers (AIM) Program – Audit of Ventura County Health Care Plan for the 2005/2006 and 2006/2007 Contract Periods

Final and Confidential

Prepared for the

Managed Risk Medical Insurance Board

## MERCER



MARSH MERCER KROLL  
GUY CARPENTER OLIVER WYMAN

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## Executive Summary – Findings

The Managed Risk Medical Insurance Board (MRMIB) requested that Mercer Government Human Services Consulting (Mercer), a part of Mercer Health & Benefits LLC, conduct an audit of Ventura County Health Care Plan (Ventura), a current AIM Health Plan. The on-site audit was conducted at Ventura's Oxnard, California offices May 6, 2009 through May 7, 2009, and test work covered the 2005/2006 and 2006/2007 contract periods. Key findings from this audit are as follows:

- Five of the 114 AIM members tested had no evidence of services. The total amount of repayment owed to MRMIB for these five members is \$45,543.00. This amount reflects the difference between the net amounts previously paid to Ventura and the five percent they are entitled to retain per contract.
- In 2008, MRMIB performed a reconciliation of Ventura's AIM payments for the time period from June 2005 through October 2006. The findings of that reconciliation included a final settlement of \$2,000 owed from MRMIB to Ventura. All of the issues identified in that reconciliation have already been accounted for and payment has been adjusted accordingly by MRMIB. Therefore, no further adjustments will be made for those issues as a result of this AIM audit.
- Ventura over-reported expenses on their 2008/2009 AIM Rate Development Template (RDT). This was as a result of appropriately estimating the newborn related expenses so they could be reported separately in the RDT, but then not netting those estimated expenses out of the expenses reported for the AIM mothers (where the costs are truly reflected). The amount of the double counting was \$83,931. This error was on an RDT medical cost base of \$1,090,165 and represents a 7.7 percent over-reporting. However, AIM rates were frozen for seven months of the subsequent contract year. The rate increase for the remaining five months was nominal. Therefore, it appears that there was no financial impact to MRMIB as a result of this unintentional inaccurate reporting. This type of double-counting did not occur in the 2009/2010 AIM RDT.
- Ventura reports historical administration expenses on their AIM financial statements between 9.4 and 15.0 percent. In the RDT, the plan reported a two-year historical

administrative cost ratio of 18.8 percent of AIM capitation (13.4 prospectively). Either way, the administrative expense percentage is higher than normal for the AIM program. However, smaller plans like Ventura usually do report much higher administrative costs on a percentage basis than the larger plans.

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## Introduction

MRMIB requested Mercer to conduct a limited scope audit of Ventura, a current AIM Health Plan for the 2005/2006 and 2006/2007 contract periods.

On February 11, 2009, Ventura was advised of the upcoming audit by MRMIB. On February 23, 2009, Mercer sent a letter to Ventura, outlining the scope of the audit and the preliminary data request. Mercer representatives were on site at Ventura's Oxnard, California offices May 6, 2009 through May 7, 2009. Ventura representatives were well prepared and responsive during the audit. Sharon Clack, Dee Pupa and Larry Keller facilitated the audit.

The remainder of this document summarizes the audit objectives, approach and findings.

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## Audit Objectives

The specific objectives were as follows:

- Through test work on 2005/2006 and 2006/2007 AIM mothers, confirm that AIM mothers received services during their enrollment
- Confirm that Ventura has appropriately accounted for transfers in/out and retroactive disenrollments, in the Monthly Financial Reports submitted to MRMIB for the 2005/2006 and 2006/2007 contract periods
- Determine Ventura's loss ratio and net profit for the 2005/2006 and 2006/2007 contract periods
- Calculate any overpayments and underpayments arising from the audit of the contract periods
- Determine the source of information Ventura uses to complete their RDT
- Determine how newborns of AIM mothers are accounted for in financial reporting and in the RDT
- Determine the basis on which Ventura reimburses their providers
- Verify the database Ventura uses to maintain the listing of mothers enrolled, per Maximus

Mercer developed audit procedures to support the objectives of the audit. Through discussion with Ventura and MRMIB, it was agreed that the Health Plan's entire enrollment for the two-year period would be subject to test work (as opposed to sampling).

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## Audit Approach and Findings for Each Objective

Mercer's approach and findings for each audit objective follow.

### AIM Mothers Receipt of Service Test Work

#### **Approach:**

Mercer first had to identify the universe of mothers newly enrolled with Ventura during the two-year period. The universe was identified to be mothers who were enrolled with Ventura and a corresponding payment made during contract year 2005/2006 or 2006/2007. These mothers were summarized in a set of files sent to Mercer from Deborah Simmons of MRMIB.

The test work consisted of a claims review and comparison to the Monthly Financial Reports, prepared by Ventura and submitted to MRMIB. Mercer requested a complete claims history for each member along with a hard-copy of at least one paid claim for each member. A sub-sample of claims were then selected to trace the reported payment amounts through the remittance advice and ultimately to the bank statement, to see that a payment was actually made for the claim. In addition, a sub-sample of claims were traced back to the provider contracts to ensure that the amount paid was calculated in accordance with contract provisions. If the mother was terminated, transferred in or out and appropriately recognized on the Monthly Financial Report, this was not considered an error, even if no services were provided.

For each claim, the mother's name was first verified with our sample set. If the name was not an exact match, the patient's AIM identification number and birth date were used for verification. The patient name, date of service and claim amount was then verified with the remittance advice to support that the remit was appropriate documentation of payment for the given claim.

### ***Findings:***

Per contract, the health plan is required to pay all but 5 percent of the rate back to MRMIB for members who did not utilize any services. Of the 114 AIM members subject to the test work, Mercer noted the following:

- No services had been provided for 5 members. The total amount paid by MRMIB to Ventura for these members was \$47,940. None of these members have been repaid in subsequent monthly Financial Reports.
- Therefore, a recoupment from Ventura of \$45,543 would be appropriate based on the audit test work. This amount reflects the difference between the net amounts previously paid to Ventura and the five percent they are entitled to retain per contract.

## Monthly Financial Reports

### ***Approach:***

Mercer requested copies of all financial reports submitted to MRMIB for the 2005/2006 and 2006/2007 contract periods. New mothers, transfers in/out and retro cancels were compared to a report received directly from MRMIB/Maximus. Mercer also performed a recalculation of the amounts reported.

### ***Findings:***

The Monthly Financial Reports showed newly enrolled members, members who had transferred in and some who had transferred out. However, there were some members that were essentially never effective (same enrollment and disenrollment date) that were not reflected on the Monthly Financial Reports. In total, MRMIB's previous reconciliation resulted in a net amount due to Ventura of \$2,000. That reconciliation covered the time period from July 1, 2004 through October 31, 2006. This amount has already been settled. Therefore, no additional funds need to be recouped or paid to the Health Plan in relation to those issues.

## Loss Ratio and Net Profit

### ***Approach:***

Mercer requested that Ventura prepare AIM income statements for the 2004/2005, 2005/2006 and 2006/2007 contract periods, using the California Department of Managed Health Care Annual Reporting forms. We reviewed these income statements with Sharon Clack, Supervising Accounting Officer I.

## ***Findings:***

Reported financial information is as follows:

	2004/2005	2005/2006	2006/2007
Total Revenues	\$536,198	\$379,241	\$607,320
Medical Expenses	\$519,259	\$581,429	\$380,725
Administration	\$80,430	\$56,886	\$56,886
Net Income (Loss)	(\$63,491)	(\$259,074)	\$169,709
Profit (Loss) Ratio	-11.84%	-68.31%	27.94%
Administration/Capitation Revenue	15.00%	15.00%	9.37%
Medical Cost Ratio	96.84%	153.31%	62.69%

Ventura recognizes revenues over the presumed 11 months (9 months of pre-natal + 2 months of post-partum) of enrollment for mothers. For example, if a new member enrolls at 5 months then 5/11ths of the revenue is recognized immediately and the remainder is recognized over the remaining enrollment for the member. This is a reasonable revenue recognition approach. They also generally recognize expenditures on an accrual (date of service) basis. The exception appears to be that when a shared-risk payment is received, they net that payment against expenses for the period in which the payment is received, as opposed to the expenses for the time period in which the payment was earned. Ventura may want to consider changing this reporting practice to more appropriately reflect net expenses from period to period. The challenge with this issue is that the shared-risk period in the contract is on a calendar year basis, while the contract year runs on a state fiscal year basis.

We noted some reasonably large discrepancies between the revenues and expenditures reported on the income statements versus those reported as base data in the 2008/2009 RDT submission. Specifically, the total revenue reported in the income statements was (\$379,241 + \$607,320) \$986,561 as compared to \$1,212,986 reported in the RDT. This difference is primarily because the revenue reported in the RDT included the \$212,285 shared-risk payment received from MRMIB related to calendar year 2006. This revenue was not reported in the income statements since it was received after the 2006/2007 contract year. The remaining difference is immaterial. In addition, the total medical expenditures per the income statements for 2005/2006 and 2006/2007 (\$581,429 + \$380,725) were \$962,154. However, the amount reported on Ventura's RDT for this same time period for medical expenses was \$1,174,096. The explanation for this differential is two-fold. First, the financial statements show the medical expenses net of a \$105,893 shared-risk payment for calendar year 2004 received during contract year 2005/2006. The RDT shows gross medical expenses for the time period. Second, the RDT reported expenses include an estimate of the cost of the newborns under the Child's medical expenses. Due to some confusion as to the proper treatment of these expenses this estimated expense of \$83,931 was not deducted from the Mother's medical costs, where they are truly reflected. Therefore, the costs on the RDT essentially double count these estimated costs of the newborns. The remainder of the difference is

not material. This double-counting was not an issue in the 2009/2010 RDT submission.  
*Note: see further discussion of the information contained in the RDT in the next section.*

The administrative expenditures reported for the two-year period on the income statements (\$56,886 + \$56,886) was \$113,772. The amount reported on the RDT for administrative expenses was \$188,528. The explanation for this differential is as follows; the administrative expenses for the financial statements were based on a flat percentage of AIM revenue (15.00 percent). For the RDT, the administration is calculated by taking all health plan administrative expenses and allocating those costs based on claims costs for each line of business (i.e., AIM, HFP, and County Employees). For the RDT, this yielded an historical administrative cost ratio of 18.84 percent of AIM capitation (13.4 prospectively). Either way the administrative expense percentage is high. However, smaller plans like Ventura usually do report much higher administrative costs on a percentage basis than the larger plans.

## Information Ventura Uses to Complete the Rate Development Template

### **Approach:**

Mercer reviewed Ventura's contract year 2008/2009 RDT (base data from 2005/2006 through 2006/2007). In addition, we interviewed Sharon Clack and Dee Pupa, who were able to walk us through the overall process utilized to complete RDTs.

### **Findings:**

Schedule Two of the RDT (Revenue, Expense and Utilization Statement) was prepared by using historical AIM claims data with dates of service from July 1, 2005 through June 30, 2007, based on claims paid through April of 2008. No Incurred but Not Reported (IBNR) estimate was added to paid claims. We also noted the following:

- The newborn days/costs appear to be appropriately reported under the Child Medical Expense section of the RDT. However, the amount represented an estimate of the costs related to the newborns that are included in the mother's hospital expenses. The issue with this is that the amount reported as an estimate for the newborns was not removed from the Mother's expenses reported. Therefore, there was a double-counting of this \$83,931 amount in the RDT expenses reported. AIM rates were frozen for seven months of the subsequent contract year. The rate increase for the remaining five months was nominal. Therefore, it appears that there was no financial impact to MRMIB as a result of this unintentional inaccurate reporting. This type of double-counting did not occur in the 2009/2010 AIM RDT.
- The claims threshold distribution appeared to be reasonable, with just one very high-cost member reported for the base time period. Mercer discussed the high-cost member experience with Sharon Clack and Dee Pupa. The member experienced an intracerebral hemorrhage immediately post-partum which led to an inpatient stay of an additional 35 days.

- The total historical costs reported in the RDT were generally consistent with the total expenditures reported on the Financial Statements (after accounting for the shared-risk payments and the double-counted newborn expenses).

Schedule Three of the RDT (Trend Assumptions) includes annual trends to be applied to the historical data. Ventura did not indicate the basis of the trend development on their RDT submission. We noted the following regarding annualized trend rates:

- Annualized unit cost trend rates range from 3.0 percent (Other) to 10.0 percent (Pharmacy), with most rates falling between 5.0 and 7.5 percent.
- Annualized utilization trend rates were all set at 0.0 percent.

The trend figures submitted in the RDT were generally reasonable.

Schedule Four (Projected Health Care Costs and Proposed Rates) is largely calculated cells, and/or a summary of claims distribution that was developed from historical data. Schedule Four also includes Administration and Profit/Risk/Contingency load factors. We noted the following regarding Schedule Four:

- The prospective Administrative load percentage calculated in the RDT was 13.4 percent.
- The Profit/Risk/Contingency included in the RDT was 0.0 percent.

The Administration load is higher than what would normally be included for this type of program; however, this is largely driven by the very small size of Ventura's AIM program.

## Accounting for Expenditures Related to Newborns of AIM Mothers

### **Approach:**

Per the Ventura contract the "State shall pay for infants born to subscribers who enroll in the program on or after July 1, 2004, through the Contractor's contract with the State for Healthy Families Program" (Exhibit B. I. B. 4). Accordingly, limited expenses related to newborns are applicable to the AIM contract. The following services provided to newborns of AIM mothers would be covered under the AIM program: newborn examinations and nursery care while the mother is hospitalized, and coverage of participation in the statewide prenatal testing program administered by the State Department of Health Care Services, known as the Expanded Alpha Feto Protein Program. During our sample test work, Mercer looked for evidence of newborn claims and how they were handled. In addition, we discussed Ventura's process for handling newborn claims with Sharon Clack, Supervising Accounting Officer I.

### ***Findings:***

Ventura's staff members were aware of the change of how newborns are to be accounted for, effective July 1, 2004. Their claims processing system/procedures appeared to appropriately split the newborn claims between the AIM and Healthy Families Program. We found only allowable claims for newborns included in the claims histories of AIM mothers.

## Basis on Which Ventura Reimburses Their Providers

### ***Approach:***

Mercer requested Ventura to provide narrative write-ups documenting their approach to developing, paying and reconciling payments, including capitation payments to providers. While on site, Mercer discussed this topic with Larry Keller, Plan Administrator and Michelle Craig, Claims Supervisor.

### ***Findings:***

The majority of the health plan's AIM members are treated at Ventura County Medical Center (VCMC) and by their contracted physicians. All hospitals are reimbursed at a case rate and/or on a per-diem basis. We reviewed contracts for VCMC and a few of the other non-related party facilities. The reimbursement rates for VCMC were at or below the rates for the non-related party facilities. Physicians are paid at 100 percent of the Medicare fee schedule. The payment arrangements Ventura has with their provider network appear to be reasonable.

## Verification of Database Ventura Uses to Maintain Mothers' Enrollment

### ***Approach:***

Ventura provided a diagram summarizing their approach for accepting, processing and reconciling enrollment information, and how members are assigned to providers. Mercer reviewed the Monthly Financial Reports (invoices) submitted by Ventura to MRMIB for billing months July 1, 2005 through June 30, 2007, to verify the process/summary described by Ventura. In addition, Mercer interviewed Larry Keller, Plan Administrator, on the enrollment process.

### ***Findings:***

AIM enrollment is received daily from Maximus by FTP file. The enrollment information is downloaded into Ventura's Insure system by a member services representative on the date it is received. On a weekly basis, Ventura reconciles the records shown on the weekly AIM file to the daily updates entered into the Insure system.

The Member Services Unit notifies Accounting via e-mail each time a new member is added throughout the month. At the beginning of each month, the Ventura Accounting Unit generates an AIM membership report that lists all new members enrolled or transferred (in/out) in the previous month. Accounting verifies the members on this report back to the daily e-mail notifications received throughout the month. Any discrepancies

are resolved. Then, the Accounting Unit prepares the monthly invoice (i.e., the Monthly Financial Report). The report is internally reviewed for quality purposes. After internal review the report is sent electronically to MRMIB for their review. After they review and approve the report they notify Ventura it is approved for hard-copy transmission. If there are any discrepancies upon MRMIB's review, they are addressed prior to transmission of the final hard-copy report from Ventura to MRMIB. The enrollment process and related activities for completion of the Monthly Financial Report appear appropriate.

# MERCER



MARSH MERCER KROLL  
GUY CARPENTER OLIVER WYMAN

Mercer Health & Benefits LLC  
3131 East Camelback Road, Suite 300  
Phoenix, AZ 85016  
602 522 6500

Consulting. Outsourcing. Investments.